

# Research

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## Summary:

# West Hartford, Connecticut; General Obligation

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## Table Of Contents

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Rationale

Outlook

Related Criteria And Research

## Summary:

# West Hartford, Connecticut; General Obligation

### Credit Profile

US\$20.0 mil GO bonds ser 2014 due 01/22/2034

*Long Term Rating*

AAA/Stable

New

West Hartford Twn GO

*Long Term Rating*

AAA/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to West Hartford, Conn.'s 2014 general obligation (GO) bonds. We also affirmed our 'AAA' long-term rating and underlying rating (SPUR) on the town's outstanding GO debt. The outlook on the long-term GO debt is stable.

A pledge of the town's full faith credit secures the bonds. Proceeds will be used to finance various town capital improvement projects.

The rating is based on our local GO criteria released Sept. 12, 2013, and reflects our assessment of the following factors for the town:

- Participation in the broad and diverse economy with very high wealth and per capita incomes;
- Strong budgetary flexibility with 2013 audited available reserves in excess of 11% of general fund expenditures;
- Strong budgetary performance and stable revenue profile with no appreciable funding interdependence with the state or federal government;
- Very strong liquidity providing very strong cash levels to cover both debt service and operating expenditures;
- Very strong management environment and strong financial policies;
- Adequate debt and contingent liabilities position, but bolstered by the town's low debt-to-market value and aggressive amortization; and
- Sizable pension and other postemployment benefit (OPEB) liabilities, although we acknowledge management is proactively managing them.

### Very strong economy

We consider West Hartford's economy very strong. The town, with an estimated 64,400 residents, is a residential suburb of Hartford that enjoys good access, via Interstate 84, to the region's diverse employment base. It is part of the broad and diverse Hartford-West Hartford-East Hartford metropolitan area. The town's projected per capita effective buying income is 154% of the U.S. level. Local unemployment remains favorable, in our view, with preliminary estimates for November 2013 at 5.6%. More broadly, unemployment in Hartford County averaged 8.7% in 2012, down from 9.4% and 9.8% in 2011 and 2010, respectively.

The tax base is primarily residential but the town does maintain a sizable commercial base at 18% and is considered the retail center for the region. The town is also home to the University of Hartford, a leading employer and stabilizing

factor in the local economy. Following the successful redevelopment of roughly 20 acres in the town's downtown area called Blue Back Square, which included about 600,000 square feet of mixed residential, retail, and office improvements and two parking structures, the town is seeing further residential development, which we believe bodes well to future grand-list growth.

Currently, the estimated full value of the tax base is estimated at \$8.3 billion, which translates to a per capita market value in excess of \$132,000. The tax base is very diverse as the 10 leading taxpayers constitute only 4.9%.

### **Strong budget flexibility**

In our opinion, the town's budgetary flexibility is strong. West Harford closed with an unassigned general fund balance of \$18 million, equal to 8% of expenditures. The town also maintains \$13 million of additional general fund flexibility in its internal service funds. On the whole, we calculate available reserves to be \$32.8 million, equal to 13% of expenditures. Over the last three fiscal years, available reserves have been managed between 11% and 13% of expenditures.

### **Strong budgetary performance**

In 2013, West Harford realized a general fund surplus of \$1.08 million, equal to 0.4% of operating expenditures. Across all governmental funds, after adjusting for capital outlay spent from bond proceeds, the town operations were also balanced.

The favorable budgetary performance stems from conservative budgeting and a modest recovery in local fees and taxes due to the improving economy. We believe West Harford maintains a stable and predictable revenue profile with property taxes comprising 79% of revenues. Property tax collections are strong and stable. State aid accounts for a low 18% of revenues. Service charges and other ancillary revenues account for the remaining amounts.

Currently, we anticipate West Harford's operating performance will remain stable. Based on our macroeconomic forecasts (See "U.S. State And Local Government Credit Conditions Forecast," published Dec. 17, 2013, on RatingsDirect), credit conditions in New England are stable. The 2014 budget totals \$240 million, an increase of less than 1% over 2013. Management states that year-to-date revenues are ahead of budget and the town may realize an additional surplus barring any unforeseen expenditure demands.

### **Very strong liquidity**

Supporting the town's finances is what we consider very strong liquidity, with total government available cash at 18.2% of total governmental fund expenditures and at 101% of debt service. Further enhancing our view of the town's liquidity position is that West Harford maintains strong access to external liquidity. The town is a regular market participant, having issued GO bonds frequently over the past several years, including short-term bond anticipation notes (BANs).

### **Very strong management conditions**

The town has a council-manager form of government. In our opinion, the Financial Management Assessment of West Harford is "strong," indicating management policies and practices are well embedded and likely sustainable. The town is conservative in its revenue and expenditure assumptions with regular efforts to determine whether revenues or expenditures will deviate from their long-term trends, and it regularly monitors budgetary performance, ensuring

adjustments are made in a timely manner. We also believe the town maintains a strong focus on financial and capital planning, evidenced by its 12-year capital improvement plan (CIP), which management reviews yearly and sets the parameters for debt and nondebt financing of all capital projects in the plan and debt management policy that limits debt service to no more than 10% and an amortization schedule with no less than 65% of principal being retired over 10 years. Moreover, the town also maintains a reserve and liquidity policy that limits unreserved fund balance to 7% of expenditures.

### **Adequate debt and liabilities**

Following this bond issue, West Harford has roughly \$140.8 million of total direct debt. Overall, the town's total governmental funds debt service is 17.9% of total governmental funds expenditures and net direct debt is 50.1% of total governmental funds revenue. While debt is at the higher end, bolstering our view of the town's debt profile is that net debt at 2.9% of market value is very low, and that the town is very aggressive in its debt amortization. Roughly 79% of debt will be retired over 10 years.

In our view, the town's pension and OPEB liabilities will remain a budget pressure, but we acknowledge management has been proactively managing them. Pension and OPEB costs account for 7.7% of total governmental fund expenditures. Despite having contributed the full annual required contribution (ARC) in each of at least the past six fiscal years, the town's pension system funding ratio has decreased significantly to just 42% due to significant pension fund investment losses, coupled with changes to actuarial assumptions such as mortality rates and the discount rate. The current unfunded liability is \$205.7 million. Management has implemented various adjustments to its pension plan for employees who began working for the town in 2003 and later, including extending the retirement age and increasing employee contributions. The town will continue to pay 100% of its ARC. It contributed \$14.1 million in 2013.

OPEB unfunded actuarial accrued liability is \$107 million with a 0.7% funded ratio. The town currently contributes the full normal cost for current employees hired since 2003 and pays for retirees' benefits on a pay-as-you-go basis. The annual OPEB cost to amortize the liability over 30 years was \$8.5 million in fiscal 2013, of which the town contributed 86%, or \$7.3 million

### **Very strong institutional framework**

We consider the institutional framework score for Connecticut cities as very strong. (See the Institutional Framework score for Connecticut.)

## **Outlook**

The stable outlook reflects our view that West Harford's strong underlying economy, very strong management, and predictable operating profile should translate into strong budgetary performance and operating flexibility over our outlook horizon. In addition, we anticipate West Harford maintaining an adequate debt and liability profile. Debt service costs, as well as pension and OPEB costs, should remain manageable and not pose an immediate budgetary challenge over our two-year outlook horizon. For these reasons, we do not anticipate changing the rating over the next two years.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### **Related Research**

- U.S. State And Local Government Credit Conditions Forecast, Dec. 17, 2013
- Institutional Framework Overview: Connecticut Local Governments

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